

General Commentary

Treasury yields drifted lower throughout the week after the federal government shutdown delayed the release of the September Employment Report. Instead, investors were left to sift through the JOLTs Report which showed job openings were little changed and hiring was subdued as well as the ADP Employment Report which showed companies unexpectedly cut payrolls last month while August's data was also revised to a negative figure. Friday's ISM Services Index showed that activity shrank for the first time since the pandemic. The Fed-sensitive front end rallied 6bps on the week while the back end saw yields fall by 3bps after investors tweaked up their expectations for future rate cuts.

IG Munis

The muni market saw a slowdown in activity after logging its best monthly performance in almost two years. Coming into the week, ratios below 60% in the front end left little to be desired causing the curve to flatten as investors re-allocated to longer duration. The benchmark AAA curve saw front end yields rise 2-4bps, underperforming treasuries by as much as 10bps, while the long end outperformed with a 5bp drop in yields. The primary calendar took a breather this week with <\$8bn in deals, but the limited options led to strong subscriptions on negotiated deals and tight bidding on the competitive front, especially for different name high grades with a little extra spread. A \$374mm Aa3/AA- sewer deal was bumped as much as 12bps out to 30 years, while a \$179mm AA- children's hospital was bumped 13bps out long. Even LA DWAP, a credit on negative outlooks by the rating agencies given its potential liabilities stemming from last January's devastating wildfires, saw solid interest with all maturities being 1.5-4x oversubscribed and upsized by \$200mm to \$1.01bn. In the secondary, dealers reported a quiet but strong tone with a good mix of accounts participating while trade volumes fell ~5%. Demand was supported by continued inflows, with Lipper reporting that \$630mm flowed into IG mutual funds this past week. Though muni investors generally have a positive outlook, the primary calendar over the coming weeks is expected to surge again, with ~\$14bn coming next week alone. We suspect deals will be well received, but underwriters will likely price in generous concessions, ultimately posing a challenge for further muni outperformance.

HY Munis

Without much to choose from in the new issue market, HY investors turned to the secondary to source different names for their portfolios. While overall activity was slower than usual, we noticed more trades in less common credits in sectors like senior living, charter schools, higher ed, and development districts. Benchmark names most lagged the AAA curve but they barely traded with Cofina 58s, the largest in the HY index, seeing just 3 round lots trade this

week and Buckeye Tobacco 55s, the 2nd largest, seeing just 2 round lot trades this week, all of which were under 5mm. Buckeyes ended near unchanged, Cofina rallied just 2bps, while GA SR400 Express Lanes finished 4bps better. The primary calendar had just one deal above \$30mm in size, a nonrated TX development district whose capital appreciation bonds were bumped 12.5bps due to heavy demand. With inflows remaining strong at \$478mm this week and limited options to choose from, we expect the uptick in the primary calendar over the next few weeks will be met with overwhelming demand. While we see little value in chasing secondary spreads, there will likely be several opportunities in the primary market for investors to monetize the new issue concession while participants clamor for paper after receiving disappointing allotments.

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Market Commentary

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